Special Report

John Figlar

Supermarket concept taking shape

By Denise Frenner

Besides being one of the catchier phrases to have taken hold in the 1980s, the "financial services supermarket" concept is getting closer to becoming a reality. A quick trip down the aisles of providers' offerings, with most of the necessary financial products situated under one roof, reveals why.

Brokerage houses, for example, offer checking accounts and money-market funds. Insurance companies market mutual funds, individual retirement accounts and some policies as investment vehicles paying competitive dividends. Banks offer individual retirement accounts and discount brokerage services, and hope further deregulation will allow them to handle insurance and securities underwriting.

If Congress responds to bankers' pleas to revamp the 1933 Glass-Steagall Act, which separates commercial and investment banking, the barriers between financial services institutions will further chip away. Competition will intensify, creating a greater need for providers to market and differentiate their products.

They're already expending considerable effort along those lines: Ad spending for the industry is booming. In 1986, financial services spending rose 21.9% to $1.73 billion, according to statistics from the New York-based Leading National Advertisers—which tracks dollars for network, spot and cable TV, network radio, magazines, newspaper supplements and outdoor advertising—and the Newspaper Advertising Bureau, New York.

Besides meeting the fiercely competitive marketplace head on, financial institutions are meeting challenges posed by regulation, deregulation and tax reform.

As the money game heats up, experts predict that the future holds more products and services, mergers and shakeouts aplenty, and increasing global competition.

Financial services & products
(1986 LNA ad spending)

Product	1986 spending	'86-'85 % chng
Banks	176.8	(2.5)
Brokers	110.6	21.8
Insurance	397.5	31.0
Investments & collections	23.6	875.2
Mutual & money funds	37.3	152.8
Savings & Loans	52.0	53.1
Credit cards, travl'rs chks	195.3	31.7

Note: Dollars in millions.
Source: Leading National Advertisers, including network, spot and cable TV, network radio, magazines, newspaper supplements and outdoor. Does not include newspaper, direct mail or spot radio expenditures.

Banks play trump cards in credit fight

By Patricia Winters

In the 1970s Citibank, New York, came up with a great idea to increase its credit-card business. The nation's biggest bank launched a massive, national direct-marketing campaign to sell its Citibank Visa and MasterCard to consumers across the country.

Citibank was one of the first to go after the national market, and it enjoyed incredible growth. But hundreds of other banks joined in the battle years ago. And now, as anyone with a mailbox can attest, financial institutions coast-to-coast are battling it out for credit-card customers.

The problem: The market is saturated with plastic. The average American adult holds seven credit cards, amounting to some 802 million pieces of plastic, according to *The Nilson Report*, a Los Angeles industry newsletter. And most people aren't eager for a new card.

"That's as many people [in the market] as there are going to be," says Spencer Nilson, publisher of *The Nilson Report*.

■ *Citibank and others offer gifts and lower interest rates to build cardholder base*

But that doesn't mean Americans' penchant for easy credit has died. Indeed, while the number of cardholders is stagnant, charge card volume is growing. In 1986, bank credit cards, such as Visa and MasterCard, represented $143 billion in charge-card volume, up more than 10% from 1985, estimates Mr. Nilson. The result, he says, is that financial institutions "are all fighting for the same customer."

Clearly, it is a battle among the big boys. Smaller banks are trying to get a piece of the action, but predictably it's the biggest issuers of credit cards that are gobbling up the market. Mr. Nilson says 37% of all bank cards in the U.S. were issued by 10 banks, and that consolidation is growing.

"The nature of the competition has changed," says Dan Brigham, spokesman for San Mateo, Cal.-based Visa International, the industry leader in dollar volume and cards issued. "Years ago, the idea was to get the cards out there, but now it's to get a consumer to use your card and to use it more often."

The economics are simple. A bank makes money on credit cards through the interest it charges and on the annual fee. Hence, a bank's goal is to win more cardholders and entice them to charge more on its card. To achieve that goal, banks are doing everything from giving away free gifts to lowering interest rates to creating identities with special groups.

Among its many credit-card programs, Citibank recently launched "Citibank Free Gifts," a promotion in which customers can select items from one of seven levels based on their card usage. At the end of a six-month period, customers whose credit-card purchases total $750, for example, can select a gift from Level One. Charges totaling $1,500 entitle cardholders to select from Level Two. Gifts include a Sony Walkman, a two-day Hertz car rental certificate and a Canon 35mm camera.

Several banks, including Citibank, waive annual fees for customers who have an account or some other product with the institution. This month, Chicago-based First Chicago began a fee-saver program in which cardholders charging more than $2,400 annually automatically get their fee waived.

Others are offering variable rates. Marine Midland Bank, New York, charges a variable rate on its Visa and MasterCard set at 9% above the rate of its three-month certificate of deposit. First Chicago offers a variable rate set at 9.4% above the prime rate on its Mileage Plus First card, an affinity card tied to United Airlines. And First Fidelity, Newark, N.J. offers a rate that decreases slightly the more the customer owes.

A few are even dropping their fixed interest rates slightly, though analysts say the biggest banks will continue to charge rates that average 17% to 18%, particularly now that interest rates are inching upward again.

Still, in February, Chase Manhattan Bank, New York, reduced the rate on its 4.8 million accounts to 17.5% from 19.8%. Some smaller banks post rates in the 11% range. American Express Co., meanwhile, is marketing its new revolving credit card, the Optima Card, with an initial interest rate of 13.5%.

With heightened interest in credit cards on Capitol Hill—at press time, a battle over disclosure laws and interest rates is ongoing—some analysts believe Optima could set off a rate war. But Mr. Nilson says rate slashing won't ever be a universal response to increased competition.

"It's not like selling dresses, where you have a 50%-off sale one day and then end the sale the next day," he says. "You can't do that in the credit-card industry. It would take six months or more to bring a [fixed] rate back up. And that's very expensive."

Some banks even offer personalized credit cards with pastoral scenes of mountains and beaches, similar to those offered on checks. "We call these things bells and whistles," says Anita Hersh, senior VP and partner at Lister Butler, a New York consultancy specializing in financial services. "If packaged well, these promotions can be used to differentiate one bank card from another."

Most of these efforts are marketed via direct mail. But traditional advertising is coming into the picture for the newest and biggest wave in credit-card promotions—affinity marketing, whereby a bank ties its credit card to a promotional offer from another industry.

The most popular alliances right now are with the travel industry. Banks give charge-card customers discount points based on their charge volume toward frequent-flier programs, hotel visits and rental cars. In addition, the cards usually have lower interest rates and automatic bonus points. Some also have higher annual fees. These promotional tie-ins are actually an outgrowth of affinity marketing among nonprofit groups. For years, banks have offered cards with attractive benefits to such groups as labor unions, social clubs and alumni associations. Chase Lincoln First, Rochester, N.Y., offers gold Visa cards to members of the Sierra Club. The interest rate is lower than Chase's regular rate, and the club receives a percentage of the dollar volume charged by its members.

In June, Visa reported its card is involved in 350 affinity marketing programs, representing 15 million cardholders. MasterCard in May said its card is linked to 335 groups, representing 6 million cardholders. Among those who have linked up are Citibank and American Airlines; First Chi-

(Continued on Page S-12)

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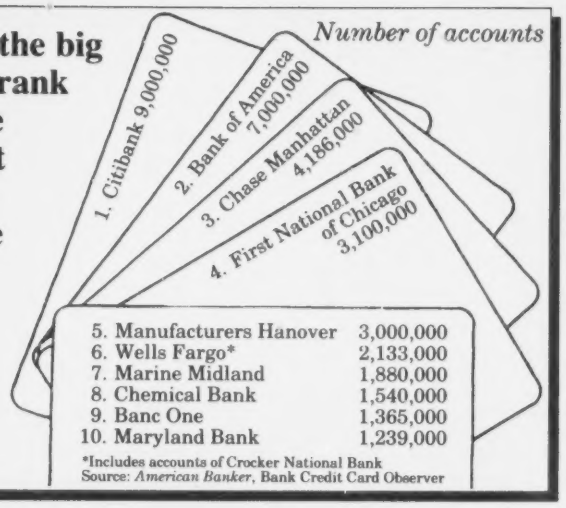
How the big boys rank in the credit card battle


Number of accounts
1. Citibank 9,000,000
2. Bank of America 7,000,000
3. Chase Manhattan 4,186,000
4. First National Bank of Chicago 3,100,000

5.	Manufacturers Hanover	3,000,000
6.	Wells Fargo*	2,133,000
7.	Marine Midland	1,880,000
8.	Chemical Bank	1,540,000
9.	Banc One	1,365,000
10.	Maryland Bank	1,239,000

*Includes accounts of Crocker National Bank
Source: *American Banker*, Bank Credit Card Observer

Trump cards

(Continued from Page S-10)
cago and United Airlines, Westin Hotels and Resorts and Hertz Rent A Car; and Marine Midland Bank and Continental Airlines Corp.

Banks issue special cards for most of these programs. First Chicago, for example, has a Mileage Plus First card for its program with United Airlines. MPF is backed by print, radio and a direct mail effort via Haddon Advertising, Chicago.

MasterCard, meanwhile, has developed its own affinity marketing program called Master Plan For Travel. It offers travel awards from American Airlines, Sheraton Hotels and National Car Rental. Its program doesn't require a special card and is backed by print ads created by former agency William Esty Co., New York.

Banks are fond of affinity programs because they generate new customers and increase card usage. But many industry observers wonder when this market, too, will be saturated. "That's the big question mark around affinity marketing," says Ms. Hersh. "I see saturation coming, and I see it coming fast."

American Express, New York, has a similar opinion. While AmEx has been offering similar travel-related promotions for years, the company says it hasn't and won't step up its promotional activity in response to affinity bank cards. Edwin Cooperman, president of AmEx Travel Related Services U.S. Consumer Card Group says, "Consumers are beginning to see all of these promotions as alike; to some degree it's to our benefit."

But not everyone feels that way. Says Mr. Nilson: "It's a marketing effort and you use it while it works. Banks can't just sit back and hope someone will use their cards." AA

As rules change so do IRA marketing plans

By Nancy Zeldis

Advertising for individual retirement accounts may not have hit the level observers were expecting during the 1987, pre-tax reform selling season. But big banks, brokerage houses and insurance companies plan to put a modest shine to IRA marketing in the months ahead.

Promotional spending will go toward a revised, more sophisticated strategy for the $300-billion nationwide market, now that an estimated 30% of the IRA/Keogh-buying public, ineligible for upfront deductions due to tax reform, may slip away. "Retirement income protection" will replace "tax shelter" as the buzzwords of 1988.

With or without deductibility, however, IRAs appear to be a prime choice among consumers as a means of saving for retirement. In one recent survey, New York-based Citibank, the nation's largest holder of IRA deposits, found that 60% of those ineligible to deduct their IRAs said they will continue making contributions.

"This past season we sold the 'last chance' IRA," says J. Scott Rasbach, manager-product development for Institutional Pension Consultants, New Brunswick, N.J., a bank and brokerage consultancy. "Now we've discovered that bankers who cried, 'the gravy train is ending,' aren't necessarily right. There's definitely a market if you sell the IRA as a retirement income plan."

Most institutions indicate their 1988 IRA ad campaigns and budgets aren't yet finalized. Some say they're going primarily after market share of existing accounts over soliciting new ones. And direct mail, many say, will be the preferred marketing tool.

In December, First National Bank of Chicago will launch a direct-mail campaign informing existing customers of the bank's IRA investment vehicles. "Our strategy will be to provide a wider IRA product line, including CDs, mutual funds, stocks, and precious metals," says Product Manager John Tomick.

Sources at New York-based Equitable Life Assurance say the company's November IRA marketing push is definitely going towards direct response. A spokesman for New York-based Dean Witter Reynolds, which increased its IRA investments 22% between March 1986 and March 1987, says the company will market IRAs via direct mail and telemarketing during tax season.

"Direct response tends to be a more efficient way of generating business from existing customers, especially with IRAs," says Richard Baxt, VP, Citibank's Tax Shelter Center, New York. Indeed, IRA holders say the techniques that best attract their attention are brochures and letters, according to Market Facts Inc., a Chicago-based research company.

Mutual funds' growth as an IRA investment vehicle continues to outpace that of others, reports Market Facts. But giants like Citibank aren't discouraged. They have created links with the stock-and-bond markets. This year, Citibank put together four different investment portfolios for its Portfolio IRA: equity, balanced, income and short term. "If you expect to do well," says Mr. Baxt, "you have to have a complete selection of options." AA

Nancy Zeldis is ADVERTISING AGE's Fairfield County, Conn. correspondent.

Meeting a taxing problem

By Denise Frenner

While H&R Block hasn't come up with specifics on how the new tax law will be worked into its traditional first-quarter media blitz, tax reform and the confusion surrounding it is the strategy behind this month's efforts for Block's Tax Training Schools.

"We're emphasizing that this is a good time to get tax training; things are so drastically changed that people need to go back to school," says Steven Dickey, marketing director at Kansas City, Mo.-based Block, the nation's largest income-tax preparation service.

The national campaign—consisting of one, 30-second direct-response TV spot airing in 20 metropolitan markets, direct-response newspaper ads appearing in virtually all markets, and direct mail—breaks Aug. 10. The two-week TV campaign was created by Kansas City, Mo.-based Bernstein-Rein; the four-week newspaper campaign and the direct mailing were handled in-house.

Mr. Dickey won't disclose the campaign's budget. But he says that for the TV and newspaper segments, the company isn't planning any increases over its standard 4%-7% annual hike of the past three years, because of tax reform.

Anticipating a higher response rate this year, the company has budgeted a larger-than-average increase for direct-mail expenditures. Block also has created a new direct-mail piece: an all-inclusive self-mailer, a departure from previous years' multiple-piece mailings.

"Last year, we mailed out 600,000 direct-mail pieces. This year, I'd suspect at least a 10% increase in response to our newspaper ads, TV spots and other promotional efforts, and that might be understating it," says Mr. Dickey. The company also foresees an increase over last year's 90,000 tax school students, and will be promoting employment with H&R Block during and after the 13-week course, which runs annually from September through December.

"We also are working with prior seasonal employees to get more of them to return," says Mr. Dickey. During the last tax season, Block employed about 40,000 tax preparers nationwide, according to Thomas Bloch, president-tax operations division. Mr. Bloch says the company currently is trying to assess next year's needs.

Block hasn't determined its traditional tax-season campaign's message, but Mr. Dickey says the primary strategy will center on tax reform. He's not sure if this campaign will stress confusion, as did one of last year's five TV spots. Critics have charged that the commercial unnecessarily pushed the panic button.

H&R Block is "cautiously optimistic" that the tax bill will help business, he says, "but we know [it has] pluses and minuses for tax preparers." AA

Associate editor Denise Frenner coordinated this report on Financial Services Marketing.

Coming

Next week ADVERTISING AGE's Special Report will focus on **Automotive Marketing.**